Privatization: An Analysis of the Concept and Its Implementation in Thailand

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Thailand Development Research Institute Foundation

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by

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Foreword

"Privatization" is presently as popular a word in Thailand as it is in many other countries and is a term frequently invoked by those who dislike the way the government sector operates—either the government is "too big" or "too inefficient" or both. In Thailand the term "privatization" is used (most often) to denote the very narrow concept of turning public enterprise over to the private sector or (less frequently) as a catch-all concept to mean everything that is done in the name of improved efficiency. In order to formulate implementable policy, however, the term privatization must be defined more specifically if it is to serve as a useful basis for devising government action.

The task of this policy study is to offer a conceptual framework for privatization which, hopefully, will yield distinct areas in which government action can be taken to implement this important bureaucratic reform program. Toward this end, the many meanings of privatization are reviewed before privatization objectives are identified. Then a conceptual framework for privatization is presented which is followed by a suggested privatization program for Thailand.

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Executive Summary

In Thailand there is a great deal of confusion about the meaning of privatization. It does not simply mean the selling-off of public enterprises to the private sector. In fact, many alternative forms of privatization can be identified, including the following: (1) government withdrawal of services; (2) divestiture; (3) joint public-private ventures; (4) contracting out; (5) franchising; (6) farming out; (7) leasing; (8) voucher-and-grant; (9) user charges; and (10) liberalization. What form of privatization should be adopted depends on the activity to be privatized and the particular circumstances of individual cases.

To avoid unnecessary confusion and conflict in this important area of reform, there is an urgent need for an appropriate conceptual framework. Thus, five privatization strategies are examined and proposed for adoption. They are:

Strategy 1: Minimum intervention and improved competition, through liberalization;
Strategy 2: Minimum public production, through contracting out, franchising, farming out, leasing, and voucher-and-grant;
Strategy 3: Load shedding, through government withdrawal of services;
Strategy 4: Use of commercial principles, through user charges; and
Strategy 5: Transfer of ownership, through divestiture and joint public-private ventures.

Examples of how to apply these various strategies are suggested below:

Strategy 1: Minimum Intervention and Improved Competition

- abolishing price controls on services provided by state-owned enterprises;
- abolishing detailed control of and interference with the management of state-owned enterprises;
- abolishing control over type and quantity of crops to be grown and area to be planted.

Strategy 2: Minimum Public Production

- contracting out street cleaning;
- contracting out the management of state-owned enterprises; and
- farming out the levying of traffic fines and the collection of parking fees.

Strategy 3: Load Shedding

- cancelling the public provision of refuse collection; and
- encouraging the private provision of toll goods such as amusement parks and public gardens.

Strategy 4: Use of Commercial Principles

- imposing a service charge on street use and on lane improvement.

Strategy 5: Transfer of Ownership

- sale of state-owned enterprises which produce for sale goods/services that are presently also marketed or potentially marketable by private undertakings.

To effectively launch a privatization program, the following specific actions are recommended:

For the short run:

- the very clear articulation of the privatization policy to be pursued by the government; and
- the establishment of some kind of national center for privatization.

For the long run:

- the codification and clarification of laws related to private property rights; and
- the study of potential cases for privatization and steps to be carried out.

Thai Executive Summary
สรุปสาระสำคัญของรายงาน

1. ความสับสนในความหมาย Privatization ("การแปรสภาพกิจกรรมรัฐให้เป็นกิจกรรมเอกชน") เกิดขึ้นในประเทศไทย จึงเป็นการสมควรที่จะมีกรอบการคิดที่เหมาะสมสำหรับคำนี้เพื่อลดความสับสนและความขัดแย้งที่ไม่จำเป็นในเรื่องนี้
2. Privatization มีความหมายไม่เพียงแต่ในแง่การจำหน่ายจ่ายโอนรัฐวิสาหกิจให้แก่เอกชน แท้ที่จริงแล้วยังมีความหมายในรูปแบบอื่น ๆ ดังนี้ (1) รัฐถอนตัวจากการให้บริการ (2) การขาย (3) การร่วมลงทุนระหว่างรัฐกับเอกชน (4) การจ้างเหมาบริการ (5) การให้สัมปทาน (6) การประมูลดำเนินการ (7) การให้เช่า (8) การให้สิทธิบัตรและเงินอุดหนุน (9) การเก็บค่าบริการ และ (10) การปล่อยให้มีการแข่งขันอย่างเสรี
3. การจะเลือกเอารูปแบบสำหรับ Privatization ลักษณะใดนั้น ก็สุดแล้วแต่กิจกรรมที่ต้องการแปรสภาพและสภาวะแวดล้อมของแต่ละกิจกรรมเป็นกรณี ๆ ไป
4. การศึกษานำไปสู่การเสนอแนะกลยุทธ์ 5 แบบด้วยกันเพื่อ "การแปรสภาพกิจกรรมรัฐให้เป็นกิจกรรมเอกชน":

    (1) รัฐแทรกแซงให้น้อยที่สุดและเพิ่มการแข่งขัน
    เน้นการใช้รูปแบบ 10

    (2) รัฐผลิตเองให้น้อยที่สุด (เท่าที่จำเป็น)
    เน้นการใช้รูปแบบ 4, 5, 6, 7, และ 8

    (3) รัฐลดภาระการจัดหาบริการ
    เน้นการใช้รูปแบบ 1

(4) รัฐใช้หลักพาณิชย์ (ในการให้บริการ)

เน้นการใช้รูปแบบ 9

(5) รัฐเลิกเป็นเจ้าของกิจการ/ทรัพย์สิน

เน้นการใช้รูปแบบ 2, 3

5. ตัวอย่างการประยุกต์ใช้กลยุทธ์ข้างต้นเพื่อกำหนดกรณีเฉพาะที่จะแปรสภาพ

สำหรับกลยุทธ์ที่ 1: ยกเลิกการควบคุม "ราคา" ของบริการรัฐวิสาหกิจ เลิกควบคุม/แทรกแซงการจัดการของรัฐวิสาหกิจ เลิกควบคุมชนิด/ปริมาณพืชผลเกษตรที่ควรเพาะปลูก/แหล่งที่ควรปลูก

สำหรับกลยุทธ์ที่ 2: การทำความสะอาดถนนหลวง
การบริหารรัฐวิสาหกิจ (บางแห่ง/บางประเภท) การจัดเก็บค่าจอดรถ/ค่าปรับจราจร

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สำหรับกลยุทธ์ที่ 5: จำหน่ายจ่ายโอนรัฐวิสาหกิจที่ผลิตบริการที่ซื้อขายกันในตลาดหรือมีลักษณะที่ซื้อขายกันในตลาดได้

6. ข้อเสนอแนะสำหรับการนำ Privatization program ที่ได้ผลมาใช้ในประเทศไทย

ระยะสั้น

(1) รัฐมีนโยบาย Privatization ที่กระจ่างชัด

(2) รัฐจัดให้มี "ศูนย์แปรสภาพกิจกรรมรัฐเป็นกิจกรรมเอกชนระดับชาติ"

ระยะยาว

(1) การออกกฎหมายและการจัดระบบกฎหมายที่เกี่ยวพันกับทรัพย์สินส่วนบุคคลให้มีความชัดเจน

(2) การศึกษาวิจัยกรณีเฉพาะที่มีโอกาสที่จะแปรสภาพ และการกำหนดขั้นตอนที่จะดำเนินการ

Privatization: An Analysis of the Concept and Its Implementation in Thailand

Chapter One

The Meaning of Privatization

"Privatization" can mean anything from "whatever is being done in the public sector" to "increased efficiency" to "the sale of a public enterprise." The term can also be used to represent a conservative position on the efficacy of the market system and the desirability of a reduced government role – as well as a way to dispose of government assets. Indeed, privatization is taken to mean so much that its true meanings are sometimes obsured. The following definitions found in the literature give a flavor to the preceding statements.

"Privatization embraces so many diverse policies.... The wide variety of policies and measures included under its umbrella are portrayed as being part of a movement in favor of 'rolling back' the state in the name of freedom and efficiency." (Heald 1985)

"Privatization is seen as more than divestiture; in fact, as any process that reduces the involvement of the State." (Pendse 1985) "Privatization is the transfer of government assets or functions to the private sector." (Butler 1986)

In the United Kingdom "privatization means transferring to private parties the ownership of a state industry that had been producing very largely for private buyers," whereas in the United States "privatization has come to mean mainly the government turning more to private producers for services for which government remains responsible and which government continues to finance. It has become simply a new name for contracting." (Kolderie 1986)

The literature about privatization as an ideology is most frequently associated with American writers who often consider the United States government to be too big (although the United States does not own as many public enterprises as do countries in Europe and on other continents). "Privatization," meaning the sale of a public enterprise, has been popularized by the United Kingdom experience and is fervently pushed by writers from developing countries where there are many money-losing public enterprises.

In between these two meanings of privatization are a host of meanings with different logical bases. Privatization sometimes refers to "increased competition" as well as "joint venture" or "ownership transfer." "Price flexibility" pursued by public enterprise is also identified as the result of privatization. Similarly, to many writers, "contracting out" certain activities formerly performed by public agencies means privatization. The forms and objectives (expected benefits) of privatization are used in the same breath to mean privatization.

WHAT PRIVATIZATION IS

Different definitions with conflicting bases are not necessarily or inherently bad or good, but for policy recommendation purposes – or to derive specific approaches to privatization – it is important to clarify the definition of privatization used in this report. As a general concept privatization conveys an ideology in which the desirability to reduce the size of the public sector and its involvement in the market economy is expressed. It denotes the desirability to allow private individuals and enterprises to undertake economic activities to the greatest possible extent for reasons of efficiency. In specific contexts privatization can refer to any of the following measures: government withdrawal from any specific service; divestiture; joint public-private venture; contracting out services; franchising; farming out; leasing; voucher-and-grant; user charges; and liberalization.[1]

Government withdrawal from services

When the government withdraws from services it no longer provides and produces certain goods/services[2]. This withdrawal may happen when, prompted by any of the following, the government redefines its tasks:

- the shortage of funds to supply services;
- political persuasion/pressure for termination;
- the absence of articulated needs for these services; and/or
- the existence of similar services in the private sector.

Indeed, if these goods/services are still deemed valuable, there will be voluntary action on the part of private citizens to provide them or private enterprise will move in to replace the government as the service supplier. However, in the context of privatization, the service in question is supplied by private producers whom customers must now pay, no longer receiving the service from the government free of charge or at a subsidized price.

Divestiture

Divestiture refers to the sale of government assets to the private sector and thus represents the transfer of ownership from the government to the private sector. In almost all countries, government assets that are for sale – either in whole or in part – almost exclusively involve public or state-owned enterprises.[3] Complete divestment removes the government entirely from involvement in enterprise operations. And, when divestiture involves a profitable state-owned enterprise, it also yields considerable revenue to the government. When divestiture involves public enterprises that are suffering losses, the government can save a substantial amount of money by reducing its requirement to subsidize.

Many forms of divestment are possible. The entire public enterprise may be sold. Even in this case it can be sold as an entity or split up into many units, each sold separately. Or part of the enterprise may be sold. In this case, the enterprise may be split up into many lines of business and only certain lines of business sold. Or only the pattern of share ownership is changed, and some stock is sold to private investors. Indeed, there are many variations.[4]

Closure or liquidation of a public enterprise is usually considered a form of divestment, although some writers would not consider them privatization. However, closure certainly reduces government involvement in a particular industry and it also implies that government is no longer in a position to continue subsidizing the operation. With the liquidation of a public enterprise (which usually enjoys a monopolistic position in the market), the field is open for enterprising entrepreneurs to set up new operations – and the chance that this will happen in the free market system is almost guaranteed by the underlying philosophy of privatization.

Joint-public-private venture

Instead of selling a public enterprise (either in whole or in part), a state-owned enterprise may set up subsidiaries with private companies or form new ventures with private companies in the same business or in an allied field. A joint-public-private venture, as in the case of divestiture, may be regarded as a partial measure to introduce private capital to share the risk of the public enterprise. Instead of direct involvement in the existing public enterprise, a new enterprise is formed with joint capital. Joint-public-private venture still operates on the premise that there is a need for some public intervention in the undertaking, which is, of course, quite different from the transfer of ownership of the public enterprise.

Contracting out

Services may be provided by government through its bureaus and departments, or goods may be directly produced by public enterprises. These services can also be provided and goods produced by private firms or other nongovernment agencies which are then paid by the government or the public enterprise in question. The production contract is awarded after a competitive bidding process. This constitutes contracting out.

Contracting out is usually discussed in connection with the production of final goods/services and is a cost-saving alternate to in-house production. But contracting out can also involve the production of intermediate products – that is, goods/services which are inputs to the production of other goods/services. Contracting out is thus nothing new in the provision of public services; for example, the repair and maintenance service of office typewriters and elevators is almost always contracted out. Extending the use of contracting out to cover final goods/services provided by the public sector is urged by many proponents of privatization.

Although contracting out as a form of privatization is usually associated with the private production of certain goods/services, it can also include contracting for the management of an activity or an enterprise. Contracting out involves government funding, with the contractor producing and/or supplying the goods/services in question. Generally contractors are private firms but they can also be other government units, as happens when the central government contracts out certain services to local governments or vice versa. Contracting out reduces the cost of the service to the greatest extent if the contract is awarded to the lowest bidder. The cost-savings is likely to be greater when the amount of competition within the private sector is most intense.

Franchising

A franchise awards monopoly privileges to a private firm to supply a particular service. The price charged by the franchisee is regulated by the government agency which grants the franchise. A franchise can be exclusive; that is, only one franchisee in a definable geographic or service area has the right to produce the service. Franchising can be nonexclusive: multiple franchises are awarded to several firms or individuals, all of whom have the right to produce the same service. The privilege to operate is sanctioned but the franchise is no longer a monopoly.

In the case of franchising, the government abstains from providing and producing that service. Users of the service must pay the private franchisee(s) for the amount purchased.

Farming out

Farming out is the form of privatization that once was the method used for raising revenue in the Kingdom of Thailand. Farming out is the awarding of monopoly privileges to the highest bidder who promises to secure a fixed amount of money (in the case of tax collection) or a fixed quantity of a given service and who also bears the cost of its collection or production.

Unlike contracting out (in which the lowest bidder is paid for producing the service), in farming out the winning bidder is not paid for the service. The bidder earns payment by collecting the most taxes or producing the maximum quantity of a service or product. If the actual taxes collected exceed the amount to be delivered to the government, the bidders earn their keep; the greater the excess the more they are paid. Of course, if the actual taxes collected fall short of the amount the bidder promises the government, the bidder still has to deliver the amount promised and bears the loss (by way of incurring the collection cost and offsetting the difference).

In Thailand in earlier days, the government did not regulate the taxes collected from farmers the way it does today through franchising. There were very few requirements placed on farmers; thus, the pay earned by the farmer depended on ingenuity, efficiency, and hard work.[5]

Leasing

Instead of making use of assets such as factories and equipment (either because the government no longer needs them for operations or a public enterprise is giving up an operation), the government or a public enterprise may lease its assets to the highest bidding private operator for a specified time or to private individuals who are willing to meet the terms specified in the lease.

Leasing suggests the temporary turnover of one's own assets to others for a given period with the understanding that the assets could be taken back when the situation warrants or the term expires. This turnover relieves the asset owner of the burden of caring for the asset or operating the activity for its implied cost. At the same time it guarantees the asset owner some income.

Turn-key operations may be viewed as a form of variable leasing. In a turn-key project the firm — which has, for example, constructed an airport or an expressway — is permitted to operate the undertaking for a number of years and retain all income generated therefrom as a means of recouping construction outlays. Payment for leasing is unspecified and dependent on the operational ability of the firm; the amount to be received is thus paid back to the operator who has, in effect, advanced the funds needed for construction. The government will then take over the operation at the end of a specified period. A turn-key operation is thus a form of privatization which reduces the government's financial burden in installing and operating the first phases of an undertaking.

Voucher-and-grant

Vouchers are coupons of specified value given by the government to qualified citizens to be used to purchase a specific service on the open market. Here the service is produced by private firms while the government continues to provide funding for the service. This measure retains or increases competition in the market for the supply of the service while it subsidizes consumers and gives them complete freedom to choose a supplier. Consumers of this subsidized service will naturally try to buy it from the seller with the lowest price. In general, not every supplier in the market is involved in the voucher scheme and those not in the scheme will not accept a voucher in lieu of cash payment. Only legitimate producers are entitled to accept vouchers and turn them in to the government for cash refunds.

Grants are government subsidies given to certain private firms for the production of a service which is deemed desirable. The subsidy may be in the form of direct grants of money to producers or in the form of tax expenditures given to tax-exempt producers. Thus the government provides for the service through partial funding,[6] while consumers of the service must purchase it directly from the market. The degree of competition among producers depends on the number of producers receiving the grant, and this depends on the government's rules for eligibility and the nature of the service. Indeed, both vouchers and grants relieve government from the direct production of certain services.

User charges

Normally, the government provision of a service is fully financed by taxes. Citizens receive the service free of charge and they may or may not pay taxes. By charging direct users for the service, government finances the service – fully or substantially, depending on the size of the charge – with the users' own money and thus behaves much like a private producer. In this case government continues to produce the service, but shares the financial responsibility in varying degrees with the users of the service.

Depending on the type of public service it is, the price paid by users may be called a fee, a toll, or a charge. The structure of a user charge may vary among the various public services depending on other subordinate objectives. For example, the charge may be a flat rate applicable to all users or it may be a system of differential rates for different types of users. Certain groups of users may be exempted from paying the charge or all users may be exempted if their use does not exceed a certain quantity.

Liberalization

"Liberalization" as used in the literature about privatization has a narrower meaning than that found in the literature of international trade. In its narrowest sense, liberalization means the removal or relaxation of statutory barriers against the development of market competition and does not include the pursuit of liberal trade policy with other nations, the abolition of protective tariff rates, or the decontrol of foreign exchange rates in line with international market forces.

This narrow meaning of liberalization brings the concept closer to the meaning of "deregulation" which is frequently mentioned along with liberalization. The concept of deregulation is confined to decontrolling actions undertaken in areas of economic activity which have presently been under close regulation, e.g., utilities, transportation, and communications. Deregulation suggests the relaxation of public control over these industries which tend to create or preserve monopolies.[7] It also includes allowing the private sector to provide a service now monopolized by government. To the extent that the market is shared by public operators and private entrepreneurs, the need for government provision of the service is reduced, hence saving government funds.

In countries where public enterprises continue to exist, liberalization is more relevant than deregulation. In this connection, liberalization is related to the relaxation of rules and regulations governing the operation of public enterprises and the market in which these enterprises operate. It also refers to the injection of flexibility into the rules and regulations and takes into account the distinct nature of a given public enterprise and the different contexts in which each enterprise operates.

Whether deregulation or liberalization is related to private or public monopoly, more competition will be effected and greater choices created for the benefit of consumers. Decontrol of prices and increased ease in market entry will usually lead to lower prices, increased efficiency (by introducing better production technology), and an improved management system which is responsive in its service to customers.

Liberalization and deregulation do not imply the complete abolition of public control over private-enterprise operations. Indeed, standards relating to service quality and relevant aspects of environmental preservation would be established and strictly enforced.[8] Liberalization refers only to the elimination of irrelevant regulations and the removal of obstacles to free-market operations.

Table 1 indicates the applicability of the privatization measures just noted. Some of the measures may be adopted by either the central government or public enterprise; some may be adopted by all levels of government.

WHAT PRIVATIZATION IS NOT

The preceding discussion implies that introducing "business management style" to public enterprises should be excluded from a privatization program. Indeed, it may be true that public-enterprise use of business management techniques should lead to increased efficiency; but this approach to management is already expected of a public enterprise. Rather than relying on the public sector to provide and produce certain goods/services, it is the rationale behind setting up a public enterprise in the first place. The management of a given public enterprise may not have met management efficiency expectations, but its application of business management techniques should not be viewed as privatization.

The same line of reasoning also leads to the incorrect view that the establishment by government of economic and financial systems to control public enterprises should be viewed as part of a privatization program. A public enterprise's borrowing (bond financing, not equity financing) on the capital market should not be viewed as privatization. Such borrowing is not materially different from the government's overdrawing its bank account in everyday operations, nor is

Table 1 Applicability of Privatization Measures in the Public Sector

Measures	Central Government	Local Government	Public Enterprise
1. Government withdrawal from services	x	x	
2. Divestiture			x
3. Joint-public-private venture			x
4. Contracting out	x	x	x
5. Franchising	x	x	x
6. Farming out	x	x	
7. Leasing	x	x	x
8. Voucher-and-grant	x	x	
9. User charges	x	x	
10. Liberalization	x	x	x

it different from the enterprise directly borrowing from any financial institution. Borrowing does not constitute any intended transfer of ownership of the enterprise.[9]

Public enterprises, by their very nature, operate by selling their products or services, although the price charged may not be in accordance with the principle of marginal cost pricing. Also, costs may not be recovered because the operation yields an economy of scale in which the average cost and the marginal cost may fall, or because the price charged is below the average cost. The price charged by any public enterprise may be very inflexible, either because of structural rigidity in the decision-making process or the government's direct control over pricing. The change in public-enterprise pricing practices (either toward marginal cost pricing, the cost-recovery principle,[10] or the frequent adjustment of prices to take into account changing cost conditions – or some combination of these actions) would not constitute part of a privatization program as the term is used in this report. The reason for excluding this situation is the same as noted above.[11]

Increasing taxes should certainly not be considered a privatization measure.[12] As will be clarified later (when privatization of provision is differentiated from privatization of production), "private donation" as such should not be regarded as part of a privatization program unless private donation refers to the production of the service in question by a voluntary nonprofit organization and is financed by private donation so secured. However, if private donation is secured for the specific purpose of financing an entire service which is being produced by a public agency, such donations may be viewed as similar to the voluntary payment of a charge – no matter what the benefit received – and would be considered a form of privatization.

The term privatization should not be as inclusive as the preceding argument tries to convey; however, neither should the term be so narrowly defined that it only refers to the sale of public enterprises to private individuals. Such a narrow definition, as is frequently understood in discussions of privatization in Thailand,[13] excludes the relevance of privatization as an important approach to bureaucratic reform.

The intention of the foregoing discussion on the forms of privatization was to make the concept of privatization more meaningful for policy formulation purposes, instead of defining privatization as any measure to reduce the size of the public sector. The approach limits the scope of measures that can be utilized and gives the privatization program its distinct focus. Otherwise, everything the government does that reduces the size of government (in terms of the annual budget) would be considered part of a privatization program and everything that enlarges it would not — although these latter measures may lead to increased efficiency. Moreover, the approach used in this report helps distinguish meanings of privatization based directly on different objectives (of privatization) from meanings of privatization based on different instruments (of privatization). This differentiation is very important, as a given form of privatization may not work for every objective being pursued. This approach also helps reduce confusion over the actual meanings of privatization and their relevance in a modern-day economy.

A final remark on the matter of definition is in order. Privatization is viewed here as a means to achieve certain ends, to be discussed in the following chapter. From this perspective it is more effective to devise a privatization program to serve a specific set of objectives.[14]

Chapter Two

Objectives and a Conceptual Framework for Privatization

Given that privatization is accepted as a beneficial policy that should be pursued, the specific measure the government should adopt for a given privatization program depends upon the objective of privatization. A privatization program can have many objectives; however, all of them cannot be achieved concurrently using one specific measure. Moreover, in any specific situation there can or should be a particular privatization objective. What objectives should be pursued by a privatization program? The experience of the Thatcher government may be cited as a basis for the present discussion.

Heald (1985) believes that Great Britain's privatization program is directed at achieving five objectives:

1. improving efficiency;
2. enhancing freedom;
3. curtailing the power of public-sector unions;
4. reducing public-sector borrowing requirements; and
5. extension of share ownership.

Clementi (1985) believes that there are four objectives pursued by Prime Minister Thatcher's privatization program:

1. to transfer nationalized industries to private ownership:
2. to open up the activities of nationalized industries to competition;
3. to eliminate certain functions carried out by the public sector altogether or to subcontract them to the private sector; and
4. to charge for public-sector services.

The objectives of the U.S. privatization program are frequently cited as increased competition and improved efficiency (Butler 1986; Okun 1986; Hanke 1986).

The examples cited here illustrate that one can read into any privatization program several objectives which may or may not be explicitly stated. The differences may be due to emphasis, expression, or perspective. It may not have been advisable for Great Britain, as the very first country to launch a program of privatization as a political move, to be explicit about its objectives. However, for a country about to formulate a privatization program with the intention of implementing it successfully (the case in Thailand), clear objectives, whatever they turn out to be, should be determined beforehand.

THE OBJECTIVES

Although it is not the purpose of this policy study to specify a particular set of objectives for privatization, it is our belief that privatization program objectives should be viewed from two perspectives:

1. overall objectives of privatization; and
2. objectives for specific cases in the privatization program.

The overall objectives of a privatization program may include, for example:

- the expansion of the private sector as an engine of growth; [15]
- the introduction of more competition in the economy;
- a change in the public-private sector mix;
- improved efficiency in the public sector;
- a decrease in the rate of public expenditure expansion.

The content of the privatization program would obviously differ, depending on which objective or which combination of objectives is to be achieved. A privatization program designed to increase competition in the economy and/or the expansion of the private sector as an engine of growth would not be the same as one whose purpose was to reduce the public-enterprise sector for, to accomplish the latter, privatization efforts would be exclusively directed at various public enterprises.

Objectives for specific privatization program cases should not be confused or mixed with the overall objective of the program. Examples of such objectives could include:

- achieving a wider share of or stock ownership in certain public enterprises;
- improving the performance of a particular public enterprise;
- reducing the financial burden placed on the central government in providing certain services;
- eliminating political interference in a certain public enterprise;
- introducing professionalism in the management of a particular public enterprise;
- increasing the quality of a given public service;
- making the provision of a particular public service more responsive to consumer demand;
- reducing the cost of producing a given service.

There may be other objectives. The list above is not intended to be exhaustive. The works cited previously (Heald; Butler; Okun; Hanke) illustrate the possibility of entertaining many objectives for specific cases (as well as for the overall program). Indeed, privatization of any form may not be the best means to achieve many stated objectives. And, it may be likely that only one particular form of privatization is an effective alternative to attain certain objectives. *One should not so readily general-*

ize the desirability of privatization for every case and for all situations, its current popularity notwithstanding. The choice of alternative means for the delivery of a service depends crucially on the objective for service availability.

A CONCEPTUAL FRAMEWORK FOR PRIVATIZATION

The importance of a theoretical basis for any policy recommendation is not readily appreciated in Thailand and this lack of a conceptual framework may be said to account for the rather shallow discussions on privatization here. Of course, confusion about a new concept, especially one that has become popular, is quite common; what has happened in Thailand is not exceptional.[15] Therefore, to offer sensible suggestions on where and how to privatize the public sector, an analytical framework is needed.

Certain preliminary remarks

Three important aspects of the conceptual framework proposed here should be briefly discussed at the outset. They are:

1. the provision versus the production of goods/services;
2. final versus intermediate products; and
3. allocation versus distribution.

Provision versus production of goods/services. Provision of a service involves a decision to make the service available. This involves financing for production and distribution of the service to relevant consumers. In the case of public provision, the government need not itself produce the service; it may buy the service from other producers and redistribute the service to relevant consumers or it may hire producers to produce the service and redistribute it to relevant consumers. If consumers receive the service provided by government free of charge, the government will recoup the cost of provision through taxation. Of course the government can also charge consumers a price. However, in most cases, government provides its services free of direct charge for reasons to be noted later.

Production of a service involves the physical process of transforming necessary inputs into the service. It is, in other words, the physical aspects of provision as opposed to the financing aspects of the process. The producer of the service may produce it for sale or may produce it to order for, say, the government. Such a situation applies to private as well as public producers.

A provision decision is thus separable from a production decision. Public provision may or may not involve public production; on the other hand, public production does not necessarily imply public provision. A public bureau may produce a service by order of a private firm and receive payment for its service. This distinction should be kept in mind and is very important to the following discussion.

Final versus intermediate products. In the preceding discussion, "public service" refers to a final product which is consumed by the ultimate users of the service. If a good/service is used as an input to the production of another good/service, then it constitutes what is called an intermediate product. Naturally some goods/services can be utilized both as final goods/services and as intermediate products. Production (be it public or private) of any good/service involves many kinds of intermediate product inputs. Public production may involve the use of privately produced intermediate products and vice versa. Public production can also engage the use of publicly produced intermediate products.

In relation to what has been discussed, it should be reiterated that the public provision of a service may also involve the public production of that particular service. And in the process of producing such a service, it is possible that public production can make use of private intermediate products as inputs.

Allocation versus distribution. Allocation involves decisions about what to produce and how to produce it; distribution involves decisions about the recipients of the product. When a service is produced with allocation in mind, the producer is not concerned with how the service is distributed nor whether the recipients of the service are rich and deserving. The concern is whether the right type of service is being produced for the right cost and in the right quantity. That is, there is indeed a demand for the service. When a service is produced with distribution in mind, the producer is concerned with who receives the service and whether the recipient is deserving. It is a question of fairness. It is also a question of welfare if certain groups are viewed as deserving recipients.

In general, the majority of services provided by the government are for allocative purposes. However, at a given time in a given society, governments may be called upon to provide a service solely for distributive purposes. Of course, a decision by government to provide a service always has distributive implications even when the sole purpose of its provision is allocative. In this respect the private approach to service provision is no different from public provision. Moreover, public provision to achieve distributive purposes does not necessarily imply public production. In other words, concern for welfare does not necessarily lead to the public provision of services.

Characteristics of service

To derive a framework in which one can reasonably determine what services are to be privatized and what are to be part of the public sector, the nature of the service must be analyzed. Two important dimensions are used to classify types of goods/services:

1. excludability; and
2. jointness in consumption.

Excludability refers to the degree to which the service (or the benefit to be derived from the service) can be excluded from consumers who are unwilling to pay for it. In other words, excludability refers to the ability of the owner or the provider of the service to exclude others from the use of the service when the terms of use are not agreeable to the former. Service can thus be excludable or it cannot. A service may be excludable, but the cost of exclusion may be so high that exclusion is not economically viable. In such a case the service is also treated as nonexcludable.

Jointness in consumption refers to the degree to which the service (or the benefit to be derived from the service) must be jointly consumed. If the use or consumption of a service by a consumer makes it impossible for others to consume the service, the service is thus separately or individually consumed. The service in question is said to exhibit "rivalry in consumption." When consumption of a service by one consumer does not concurrently preclude consumption of the same service or does not reduce the amount of the same service consumed by others, the service is said to be "jointly consumed." Although the two cases are shown to be opposite extremes, in reality most goods/services fall along a continuum between pure individual and pure joint consumption.

Types of service

In these two service dimensions one can distinguish four major service types.

1. private goods;
2. toll goods;
3. common-pool goods; and
4. collective goods.

Figure 1 The Service Dimensions

Dimension		Exclusion	
		Feasible	Infeasible
Consumption	Individual/ rival	(1) Private goods	(3) Common-pool goods
	Jointly/ nonrival	(2) Toll goods	(4) Collective goods

- Private goods are pure-individually-consumed goods for which exclusion is completely feasible (for example, shirts, apples, bottled soft-drinks).
- Toll goods are pure-jointly-consumed goods for which exclusion is completely feasible (for example, piped water, a movie house, an amusement park).

- Common-pool goods are pure-individually-consumed goods for which exclusion is completely infeasible (for example, air, fish in the river, underground gas).
- Collective goods are pure-jointly-consumed goods for which exclusion is completely infeasible (for example, national defense, police protection, air pollution control).

Collective goods are often regarded as pure public goods, while tool goods and common-pool goods are considered impure public goods because either of them may be publicly provided or privately provided. In many places public and private provision exist side by side. For instance, fish in the river are hatched by a public agency to increase the quantity available for consumption by those who come to fish. Once fish are caught and sold in the market place, they are thus privately provided. Or, a canal may belong to a private citizen who hatches fish to increase the supply; the canal owner then permits others to catch these fish for a certain price. The fee payers then jointly consume the fish they catch in the canal. Again, an amusement park may be built by a city government and made available to children free of charge. The same type of park may be provided by a private entrepreneur who charges an entry fee.

The provision of service

Whereas the provision of private goods through private concerns and the provision of pure public goods (collective goods) through the public domain are more or less universally accepted, it is the provision of impure public goods (toll goods and common-pool goods) that is the source of public-private provision controversies. Thus, private entrepreneurs are able to provide private goods by charging an appropriate cost for the service. Those consumers who are unwilling to pay the demanded price are effectively excluded from its consumption. As a result, incentive exists for private provision and private production of private goods. In other words, the supply of such goods is found in the market place, and price mechanisms determine their availability and quantity.

However, there are certain aspects of private goods production that are conducive to the promotion of consumer welfare – monopoly and decreasing unit cost – and decreasing cost itself may lead to monopoly. Although the existence of a monopoly and/or the decreasing cost of private goods production may not lead to public provision, it usually involves public intervention in the form of regulation or subsidy. Externality is another aspect of private goods which leads to public intervention in their provision. The existence of externality can either be positive or negative; it can either occur in the production or in the consumption phase. That is, the production of certain private goods affects the cost or utility of other producers or consumers of other goods. Or the consumption of certain private goods affects the utility or cost of other consumers or producers of other goods.

The situation differs in the case of public goods. Private entrepreneurs are unable to exclude those who are unwilling to pay for the service; they become free-riders. If all realize that they can consume the service without paying for it and the provider cannot exclude them from consuming it, their incentive is not to pay at all. Thus, no private entrepreneur will undertake its provision. Moreover, because of the nature of a collective good, it is generally very difficult to specify its quantitative production, both with respect to the good itself and to the amount consumed individually. For example, how much national defense is to be provided? How much police protection? How much pollution control (clean air, quiet surroundings)?

Because the service benefits everyone, collective action is required to provide such service. If collective action involves numerous persons and privately organized collective action cannot be mobilized, the only alternative left to provide such a service is government. And special methods (i.e., taxation) must be devised to secure payment for its production. It should also be noted that the production of collective goods involves intermediate products as inputs. When these intermediate products are private goods, they can and should be privately produced. Thus, production of collective goods does not imply public production of all inputs associated with collective goods.

In addition to the examples of pure-public goods cited earlier, certain aspects of private goods can be treated as public goods. The safety aspect of certain private goods (e.g., food, drugs, buildings) is very crucial for the well-being of the consumers of the goods and also for the public at large. Safety assurance (i.e., safety regulations) is thus a publicly provided service. The same is true for honest trading, reporting (of product quality), and advertising.

Toll goods do not create the problem of private provision. Although they are jointly consumed, it is possible to exclude those consumers who do not pay the price charged for their use. Consequently, goods of this nature are readily supplied in the market place. However, some toll goods exhibit economies of scale in production or decreasing unit cost. And decreasing cost creates the problem of optimal pricing, and, hence, the optimal quantity to be supplied. It also leads to the formation of a monopoly or reinforces the monopolistic position of a natural monopoly. These are the aspects of toll goods that create problems of provision. In certain countries these toll goods are supplied by government, usually via public enterprises; in other countries they are supplied by private monopolies and closely regulated by government; and in many other countries they are supplied by private entrepreneurs with minimal control who may also face competition from existing (or potential) private enterprises.

Evidence seems to suggest that private enterprises are likely to be more efficient than public enterprises, especially when the former face direct or indirect competition. The principal reason for this is that public managers have no incentive to maximize the return to the organization since the return does not accrue to them. When the organization suffers losses, the wealth of public managers is, correspondingly, not reduced. Private entrepreneurs cannot tolerate inefficiency without jeopardizing their wealth position. To avoid loss and to maximize profits, private entrepreneurs must try their best to be the most efficient. The greater the degree of competition, the more efficient they have to be in order to make any profit at all.

Common-pool goods create another type of problem. Such goods can be privately produced and individually consumed. To this extent their provision does not create any problem to producers; it does, however, create problems with the availability of supply. The supply source of common-pool goods is nature (e.g., gas, crude oil, fish). This natural supply can be in danger of depletion as private producers collectively exhaust the common supply and no one producer is able to exclude others from exhausting the supply. Supply depletion is a societal problem and can be viewed as a negative public good (or "public bad"). The control of supply utilization to prevent depletion becomes a task performed by government (i.e., provider of supply regulation or restrictions on use). Similarly, assuring that the supply is available is also a task undertaken by government (i.e., research and expansion of the supply).

THE DIRECTION OF PRIVATIZATION

Given the discussion of the four major types of goods we are now in the position to summarize a general direction for privatization.

If the good/service in question is a private good/service, then the good/service should be provided by the private sector. Aspects of private goods/services that can definitely be treated as exhibiting a collective-good element should be provided by the public sector. Moreover, the existence of a monopoly and/or the decreasing unit cost of private provision can also call for public intervention. This is also true when externality exists in private good/service production or in consumption.

If the service in question is classified as a toll good, then the service should be provided by private entrepreneurs with appropriate supervision from government. Government regulation should be minimum to the extent that monopolistic power is not exploited to the disadvantage of consumers and that direct and indirect competition among producers of substitutes can be promoted and sustained.

If the service in question is identified as a common-pool good, then the service should also be provided by the private sector. Public provision in such a case should be confined to activities which will ensure supply expansion and avoid depletion.

If the service in question is regarded as a collective good, then the service should be provided by government when private collective action to provide it cannot be mobilized. To the extent that inputs for the production of a collective good are themselves private goods, their production should be left to the private sector. Table 2 summarizes the preceding discussion.

The decision to provide versus the decision to produce

The preceding discussion focuses mainly on what should (or should not) be publicly provided, although the writer also alludes to the production aspect of provision. In the context of privatization a distinction should now be made between privatization of provision and privatization of production. A decision faced by any government in this situation may be stated as follows. "The primary policy decision of government is to provide a service and the secondary decision is to produce a service" (Kolderie 1986). Looking at the issue in this manner, four possible kinds of decisions emerge.

1. **Government decides to do neither.** Hence, both the provision and production of a service take place in the private sector. Such a decision mostly involves private goods as discussed above.
2. **Government decides to do both.** Hence, both provision and production of a service take place in the public sector. Such a decision mostly involves collective goods as discussed above.
3. **Government decides to provide a service but not to produce it.** The service is thus publicly provided and privately produced (e.g., a national highway); it involves some forms of contracting out. Positively, whether such a case is actually confined to a collective good is a political decision. Normatively, it should be related to collective goods.
4. **A private individual decides to provide a service but not to produce it.** Instead, the individual turns to government for its production. The service is thus privately provided but publicly produced. Such cases may be very few, but they do exist in Thailand (for example, the hiring of police officers by jewelery shops or commercial banks to provide security protection).

Table 2 Desired Pattern of Provision

Goods	Provision	private provision	public provision
(1) private goods	product proper	x	
	element of publicness		x
(2) toll goods	product proper	x	
	element of publicness		x
(3) common-pool goods	product proper	x	
	element of publicness		x
(4) collective goods	product proper		x

Controversy arises more often in type (3) than in type (2) decisions.[17] In both cases controversy arises when the nature of the service is problematic. In other words, public provision is questioned when the service is either a toll good or a common-pool good.

DECISION CRITERIA FOR PRIVATIZATION

The case of public versus private provision

The distinction made above between the decision of government *to provide a service* and the decision of government *to produce a service* should help put the issue in proper perspective. Public provision may or may not be appropriate. The type of service in question is helpful to determine its suitability. The final judgment on this matter is, of course, a political judgment and hence a political decision.

As such, the reasons used to make decisions are seldom agreed upon by all decision makers involved. Indeed, decisions derived from a political process are expected to be controversial.

Nevertheless, economic analysis can still offer insight to initial decisions about provision. Thus, in deciding to provide a public service the issue usually involves the type of service to be provided. As already discussed, there are a number of services that cannot be decisively determined on efficiency grounds alone. For some services a high degree of external economy may be the principal reason for public provision, although the goods are not pure-public goods. For still others, preventing the formation of a private monopoly may be the dominant reason for public provision.

Moreover, the availability of a particular good/service is considered desirable because the service is beneficial to those who consume it, yet no private producer is willing to provide it. This reason is implicit in the majority of collective goods provided publicly. Of course, in cases in which private collective action comes forth to ensure the availability of certain public goods (which does often happen), public provision is not called for. Also in many cases, the availability of a service (e.g., slum clearance, housing for the poor) benefits a specific group needing special assistance, which, if left to market mechanisms, would not be made available. Under these circumstances, public provision is regarded as the appropriate means to guarantee the availability of the good/service. Here the purpose of public provision is equity or welfare and the degree of concern for the distributive effect or the aspects of equity can be viewed as politically determined. Thus, in many countries, especially those with highly skewed income distribution patterns, the equity consideration may be the predominant criterion.

In other cases, another set of reasons may prompt decisions to provide certain services through the public sector. These reasons are national security and reasons associated with national security (such as preventing private producers from having excessive economic power or political influence). Justifications for the public provision of such services as the national rail service, international airports, national trading ports, and electric utilities are invariably related to national security. Further, this line of reasoning is also related to political value judgments.

On the basis of the preceding analysis it is obviously impossible to determine the optimal mix between privately- and publicly-provided goods and services in any economy. Indeed, the actual mix is the result less of economic reasoning than of political decisions. In an economy where politicians and the government are more conscious of the welfare of the poor and the underprivileged or are believers in the welfare system, the proportion of publicly-provided goods and services (measured in terms of GDP) is likely to be greater than would otherwise be the case. Even in such an economy two additional factors – which have lately assumed much relevance in most countries – must still be considered: (1) the size of government may have already become "too big" to be comfortable for many citizens; and (2) the difficulty of the government's raising more taxes while obviously being unable to provide more public services because of financial constraints.

To privatize or not. In the context of this discussion the relevant decision involving privatization is whether or not certain now publicly-provided goods and services should be turned over to the private sector. The decision criteria *not to privatize* compose (in descending order of importance): (1) national security; (2) equity; (3) private willingness; and (4) efficiency. Stated differently, a decision to privatize should be made on the basis of the four criteria just noted.

Public versus private production

For whatever reasons a public-provision decision has been made, there still remains the choice between public and private production. The choice of public production over private production or vice versa can be made on the basis of efficiency because efficiency can be easily demonstrated and the choice readily evaluated.

Thus production decisions can be made more easily if the service in question is divided into component subservices. Some services (such as police protection, or education, or health care) may be too broad to determine an efficient mode of production. If, however, police services were disaggregated (into police public relations, police training, traffic control, parking enforcement, towing away illegally parked cars, preventive patrol, homicide investigations), different methods of production (whether public or private) could be appraised and the most efficient one selected. Not all of these subservices require gun-carrying police officers who are on the public payroll; some of these services could easily be in the hands of private enterprise.

Relevant to this discussion is another aspect of service, which is, in one respect, very closely related to service disaggregation. Any service production involves a multitude of inputs. Some of these inputs can be distinguished as intermediate products. For example, the production of the agricultural extension service may involve seeds, fertilizer, technical handbooks. Some of these services may be classified as support services, for example, office building cleaning, vehicle repair and maintenance, elevator service, personnel training. All of these services need not be publicly produced (i.e., by people who are on the public payroll); more often than not, they can be produced privately.

Output specificity is another aspect of service which figures in decisions about production methods. The output of some services can be specified precisely. Indeed, refuse collection, highway construction, street paving, for example, can easily be contracted out to a producer and the production cost calculated with little ambiguity or misunderstanding. The efficiency of service delivery can be appraised. Alternative methods of production are thus effectively available. Such may not be the case for many other services such as police protection or education. The service output here cannot easily be specified, for only with great difficulty can such a service be quantitatively and qualitatively defined. In cases like these, close supervision and monitoring are needed to judge the fulfillment of delivery specifications.[18] For very demanding providers of the service, in-house production may be a more efficient way of producing it, as providers presumably know best what they really want. Public provision in such a case may also involve public production.

Availability of producers should also be considered when a decision on production method is contemplated. If no private producer is available, the government obviously has to undertake the production of the service it is to provide. When private producers are available in large numbers, the choice of production method is then wider and the most efficient mode can be selected.

The three main criteria

The choice of public production or private production should be made on the basis of the efficiency criterion as well as other criteria such as equity and competition. Everything else being equal, if private production would help improve the welfare of recipients much more than public production, private production should be chosen. Competition should also be another criterion; if private production of a publicly-provided service promotes competition in the market, while public production does not and other aspects are the same, then the choice of private production is indicated.

When the application of these criteria produces conflicts, tradeoffs must be made depending on the subjective value placed on each criterion. In this discussion the efficiency criterion ranks ahead of the equity criterion, which, in turn, ranks ahead of the competition criterion.

Relevant forms of privatization

Privatization of production involves many forms. Which of the measures chosen may again be based on the three criteria above. At this decision level, a fourth criterion, individual freedom, should also be added. Other aspects being equal, the form of privatization which increases individual freedom of choice must take precedence over other forms. Normally, tradeoffs of criteria are a part of the decision-making process. Here the preceding ranking of criteria is also applicable, with the individual freedom criterion ranking last. Of course, alternative ranking systems are also possible, for choice is ultimately a matter of value judgment.

In short, the following set of criteria is proposed for making decisions about privatizing publicly-provided goods and services: (1) national security; (2) equity; (3) private willingness; and (4) efficiency. The relevant criteria for decisions on public versus private production are: (1) efficiency, (2) equity; and (3) competition. The proposed criteria for the choice of the form (or measure) of privatization are as follows: (1) efficiency; (2) equity; (3) competition; and (4) individual freedom.

Chapter Three

Implementing a Privatization Program in Thailand

The preceding conceptual framework details the elements to be considered in choosing public provision over private provision or vice versa. Once public provision is chosen as the method, the framework also suggests criteria for choosing public versus private production – or both of these choices can be posed as privatization of provision and privatization of production. Given the desire to privatize, a privatization measure or a form of privatization must also be chosen for each specific case. The criteria for such a choice are also discussed in the preceding section. We now propose to discuss the implementation of a privatization program in Thailand in the light of this framework; however, before the nature of implementation in Thailand is discussed, we must define the privatization program we have in mind.

A privatization program in this discussion signifies an effective set of specific activities consciously undertaken by the government whose objectives are to efficiently increase competition among producers of goods/services; to enhance efficacy of price mechanisms; and to enlarge private involvement in the provision and production of goods/services.

Faced with tax revenue constraints and its already over-extended resources (resource from foreign borrowings), Thailand has no choice but to systematically launch a privatization program which must be begun now and be carried out into the future. The relevant question is how to design a program of privatization that will ensure achieving the privatization objectives stated above. An effective privatization program for Thailand should have two principal components:

1. Strategies to be pursued as guidelines for specific privatization actions; and
2. Specific activities to be privatized and approaches to be used in specific cases.

Each of these two components will be discussed in turn.

STRATEGIES FOR PRIVATIZATION

In planning an effective privatization program one should not plunge directly into the identification of one or several activities to be privatized. Such an approach is likely to cause confusion and, more often than not, resistance – which is already apparent in Thailand. Instead, it is proposed that the following five strategies be adopted as broad guidelines for identifying specific cases for privatization and for working out the details involved in privatizing those activities.

Strategy 1: Minimum intervention and improved competition

The strategy of minimum intervention and improved competition frees the market to operate without unnecessary regulations and restrictions. By fostering market forces, competition would improve, which would not otherwise be the case. Deregulation and liberalization would be the principal measures put to use under this strategy.

Strategy 2: Minimum public production

Minimum public production reduces the amount of public production and the delivery of publicly-provided services. This strategy involves such measures as contracting out, farming out, leasing, turn-key operations, franchising, and voucher-and-grant.

Strategy 3: Load shedding

Load shedding trims nonbasic or unnecessary public services presently provided by the government and can be related both to type of service offered and to the quantity of particular public services. This strategy suggests that public provision should be confined to collective goods that are not being collectively provided by the private sector and to public aspects of toll goods, common-pool goods, and private goods.

Strategy 4: Utilization of the commercial principle

Utilization of the commercial principle means charging for public services whenever possible. This strategy thus involves extending the application of user charges (tariffs, tolls, fees) in the public sector.

Strategy 5: Transfer of ownership

Transfer of ownership reduces and eliminates proprietorships and the operation of state-owned enterprises. This strategy includes measures such as divestitures of varying degrees.

The order of the strategies as presented above represents implicit priorities. Priority rankings are based on ease of implementation, both in respect to the time it takes to devise detailed steps to implement the measure and determining the nature of enforcement. It also reflects the degree of public acceptability. As is already evident above, each strategy involves respective forms of privatization. These strategies thus suggest actions to be undertaken and specific areas in which these actions would benefit the public sector and the economy as a whole.

SPECIFIC ACTIVITIES TO BE PRIVATIZED

To link specific cases with proposed strategies the cases are categorized under each strategy below. It should be borne in mind that these cases were chosen on the basis of the criteria detailed on the preceding pages. Briefly, in respect to decisions on public provision, the criteria consist mainly of national security, equity, private willingness, and efficiency. With respect to choice of private production over public production, the criteria are efficiency, equity, and competition. And regarding forms of privatization, the criteria include efficiency, equity, competition, and individual freedom. The cases must consequently be judged in that light.

Under Strategy 1, *minimum intervention and improved competition*, the following cases are suggested:

- Abolition of price controls over services provided by state-owned enterprises which remain in the public domain;
- Abolition of detailed control and interference with the management of state-owned enterprises and adoption of control procedures which stress performance auditing;
- Abolition of price controls over consumer goods/services;
- Abolition of price guarantees for agricultural produce;
- Abolition of control mechanisms imposed on agricultural and manufactured goods exports;
- Abolition of controls over type and quantity of crops to be grown and areas to be planted;
- Abolition of laws controlling the growth of enterprises and new establishments to promote competition;
- Improvement of mechanisms for standard quality control over the production of private goods, toll goods, and common-pool goods;
- Abolition of rules, regulations, and other kinds of red tape which hinder the acquisition of public services;
- Installation of better mechanisms to facilitate dealings with the government.

Under strategy 2, *minimum public production*, the following cases are offered:

- Contracting out all possible cases whose production activities have a specified output. Public services should be disaggregated in order to facilitate the identification of these outputs. Examples are street cleaning, building cleaning, garden keeping, research projects;
- Contracting out the management of (1) a public enterprise while awaiting transfer of ownership and (2) an inefficient public enterprise whose service is regarded as essential;

- Franchising certain privileges presently in the public domain. Examples are concessionaries in publicly-owned space (public parks), the operation of certain railways, intra- and inter-citybus transport, and inter-provincial air lanes.
- Farming out certain activities presently undertaken by the government such as the levying of traffic fines and the collection of parking fees;
- Use of the turn-key approach for the construction of certain infrastructural facilities. Examples are provincial ports and bus/truck depots or terminals.

Under strategy 3, *load shedding*, we submit the following cases:

- Cancellation of public refuse collection;[19]
- Insistence on private provision of collective goods when beneficiaries of collective goods can readily be identified and are able to be organized. An example of this case is the provision of basic infrastructural facilities for housing projects;
- Encouraging the private provision of toll goods that are considered good for the health of the citizens such as amusement parks and public gardens;
- Answering the need for the rapid expansion of universities, colleges, and hospitals by promoting the establishment of more private institutes. This will help ease the pressure placed on the government which it finds increasingly difficult to satisfy.
- Greater participation of nongovernment organizations and private firms in rural development programs;
- Withdrawal from the public provision and production of housing for middle- and upper-middle-income groups and pushing more for the private provision of housing for medium- and greater-than-medium income earners. This suggestion implies the withdrawal of certain functions presently performed by the National Housing Authority so that the Authority can fully concentrate on the provision of housing for the poor with appropriate financial assistance from the government. The provision of housing for the poor is thus regarded as a publicly-provided service.
- Withdrawal from the public provision and production of goods/services which are presently also marketed (or potentially marketable) by private undertakings (such as canned products, hotel services, glassware, and tanneries). These cases are further noted in connection with the cases under strategy 5.

Under strategy 4, *utilization of the commercial principle*, the following cases are suggested:

- Imposition of a service charge in cases such as flood control, street use (when a street is converted into an expressway or a new expressway is constructed), lane improvement;
- Increasing the price imposed on services which have had or should have had user charges such as bus fares and certain services presently offered by public bureaus whose beneficiaries are able to be identified. Of course, in some of these cases equity must be considered; in some of these cases a price increase may have to be moderate or other measures should accompany the increase in service price to alleviate the burden on the poor.

Under strategy 5, *transfer of ownership*, we offer the following suggestions:

- Transfer of ownership of all state-owned enterprises – regardless of their profit and loss standing – which produce for sale goods/services that are presently also marketed or potentially marketable by private undertakings. Examples of these state-owned enterprises are the Syndicate of Thai Hotels and Tourists Enterprises Ltd., the Cholburi Sugar Corporation Ltd., North East Jute Mill Co. Ltd., the Playing Cards Factory, the Dhipaya Insurance Co. Ltd., the Thai Marble Corporation Ltd., the Thai Plywood Co. Ltd., the Government Cold Storage Organization, the Telephone Organization of Thailand, the Glass Organization, the Textile Organization, the Battery Organization. This suggestion also extends to subsidiaries of these public enterprises and of other state-owned enterprises as long as these subsidiaries produce for sale goods/services which can be produced by the private sector.
- Transfer of ownership of these public enterprises should be carried out on a case-by-case basis. Complete transfer of ownership is proposed for reasons to be noted in the next chapter. Forms of transfer should also be worked out with respect to the type and size of the state-owned enterprise in question as well as the objectives for which it is being privatized.

A privatization program does not merely involve the identification of a specific area or a particular activity to be privatized. In fact, the more difficult aspects of the program are (1) determining the details and the exact steps to be undertaken in order to privatize (say, transfer of ownership) a particular entity or an asset and (2) formulating a set of rules and procedures to be observed in order to, for example, contract out or franchise a specific activity.

Steps to be taken

The preceding discussion of the five strategies has already hinted at the broad steps to be taken.

1. **The first step** involves examining the laws and regulations imposed by the government which obstruct free trade and hinder market competition. This step will lead to the identification of areas and specific cases for liberalization and deregulation.
2. **The second step** is a review of the production of collective or public goods presently found in the public sector. Such a review will suggest possibilities for contracting out to private producers and other similar measures.
3. **The third step** involves an analysis of the present structure of services in the public sector to discover whether there are any private goods, common-pool goods, or toll goods provided by the government. This step helps identify possibilities of load or burden reduction.
4. To the extent that certain common-pool goods or toll goods should still be in the public domain for whatever reason, **the fourth step** involves an analysis of the possibilities for imposing user charges on these services.
5. **The fifth step** is a review of public enterprises and publicly-owned assets to shed light on the possibilities of liquidation and divestiture.

Although this discussion tries to be quite specific about the areas of privatization within the five-strategy framework, it is still not sufficiently specific in identifying the steps to be followed in the privatization process for each specific case. This is to be expected because of the nature of this study and the richness of activities in the public sector. The detailed nature of each public activity must be examined carefully in order to determine the steps to be pursued for successful privatization. To accomplish this task, an institution – to be called the National Center for Privatization – is proposed. It would be set up to (1) identify the specific government and public-enterprise activities to be privatized and (2) determine the appropriate steps to be followed in launching the privatization process in particular cases. The Center would also be in charge of formulating standard procedures for implementing privatization activities. Of course, in keeping with the spirit of privatization, specific in-depth studies would be contracted out to outside consultants.

Privatization should not be viewed as a current fad to be looked into and then forgotten. It should be seen as a general approach to reducing the size of the public sector and to increasing efficiency in the public and the private sectors. Indeed, the potential privatization of public activities should always be explored and implemented if the possibility exists. There is thus a need for an institution such as the National Center for Privatization.[20]

THE POLITICAL ECONOMY OF PRIVATIZATION

Before discussing the potential problems involved in implementing a privatization program, it is appropriate, at this point, to discuss some aspects of the political economy of privatization.

The political economy of privatization involves the nature of the distributive patterns of positive and negative effects generated by the very act of privatization. Positive effects refer to benefits to be obtained and negative effects refer to losses to be shouldered by the country and by certain groups of people. These effects may be immediate (in the sense that they are generated as soon as the privatization measure for a particular case is enforced) or they may be remote (in that there will be some lag time before the expected effects become realities). Because effects are distributed differently on different groups of people – intended or unintended – each group reacts differently – either favorably or unfavorably – generating a political reaction that affects ultimate decisions which are economic in nature.

Relevant interest groups to be considered in the implementation of a privatization program include the following: owners, managers, employees, customers, taxpayers, potential investors/contractors/franchisees/leasees, and the financial/business community. The following discussion attempts to describe the nature of some expected effects, of the differential impact on different interest groups, and their probable reactions. Toward this end the discussion is organized in terms of the five strategies described earlier.

Effects of strategy one

Pursuing strategy one – minimum intervention and improved competition (which can be implemented through liberalization and deregulation) – will generate the following effects. Income for deregulated/liberalized industry will increase; those involved in this industry should be better off than before. However, formerly protected or regulated firms will have their income reduced insofar as they will now obtain economic rent from their privileged position. Those involved in these firms would be worse off than before. Improved competition generated from deregulation or liberalization will make firms more responsive to consumers; hence consumers will get better service and improved product quality.

More specifically, owners of those firms which compete successfully in the new business environment would increase their income. When the situation involves a public enterprise, the relevant interest group here would be those at the managerial level of the enterprise. Depending on the exact nature of deregulation/liberalization, management would gain from operating in a more liberal environment, easing the decision-making process and enhancing business autonomy. To the extent that deregulation causes the public enterprise to be in the vulnerable position of facing competition – in which it never was before – management stands to experience lower income if it is unable to adjust operations to compete successfully. In such a situation the management of this enterprise would resist privatization and it should be given extra inducements to help ensure successful post-deregulation/liberalization operations.

Employees of liberated/deregulated firms would profit by their firms' competing successfully and expanding production. However, employees of a formerly monopolized public enterprise may face reduced income if the public enterprise is unable to compete with new entrants.

As already noted, the situation prevailing after deregulation/liberalization would benefit consumers of the service as well as new firms which would be able to enter the liberated field. The investment climate would improve because of the government's hands-off policy, thus benefiting the business community as a whole.

In conclusion, the pursuit of the minimum intervention and improved competition strategy via liberalization/deregulation would benefit more groups than it would hurt. From this perspective this approach (coming from formerly protected firms) should encounter little or no resistance. Firms should be offered compensation in one form or another to reduce resistance if the resistance is of a magnitude to hinder the strategy's implementation.

Effects of strategy two

The pursuit of strategy two, minimum public production, can be carried out by way of contracting out, farming out, leasing, franchising, or voucher-and-grant. This strategy would increase the income of firms which provide substitutes for government production of the good/service in question. This situation will encourage the expansion of firms receiving franchises, contracts, and leases and thus improve the investment climate of the business community as well as extend the benefits to enterprise employees. Consumers of the affected service can expect to receive better service (both in quality and in quantity) and they may also be offered more product choices. Further, to the extent that private firms are able to perform the service at a lower cost than the government, the service may also be offered at a reduced price. Thus, the general tax-paying public will receive more public services at the same tax level because cost savings from this form of privatization will be rechanneled to provide other services. Indeed, they may even pay lower taxes if cost savings lead to tax reductions.

To the extent that government agencies or public enterprises are released from the production of certain goods and services, their ability to perform their remaining tasks may improve as they would then be able to concentrate on managing fewer tasks and this improved efficiency will benefit customers receiving their services. In the case of franchising, leasing, and farming out the government agencies and public enterprises concerned would also make a higher net income than they would otherwise; however, the negative effects could involve employees being laid off because their services were no longer needed, although it is more likely that these employees would be redeployed in other areas where demand had increased.

In sum, the pursuit of the second strategy suggested in this report will yield net beneficial effects to various interest groups and to the economy as a whole—provided that the service or product that is being privatized under this strategy has been well selected and implemented. And the chance for resistance against this privatization strategy is very low when the nature of the privatization process has been clearly articulated beforehand.

Effects of strategy three

Load shedding, which is the third strategy delineated here, can be pursued through government withdrawal from the provision of certain services. The decision directly affects the general public who receive the service in question. They either have to go without the service or turn to private producers for the service for which they will now have to pay. In either case they suffer a loss of welfare and those who are poor may not be able to secure the same amount of service they formerly received. Employees of a given government agency or public enterprise may become unemployed as their services would be no longer be needed. This certainly would reduce the income of these employees who may not be happy even with reasonable severance pay. Obviously, they would not favor a load-shedding strategy. Of course, for those who are employed by government agencies, the likelihood that they would be redeployed is high as they can be used to increase production of other needed services. To the extent that redeployment is carried out, they would not be laid off. However, employees of a public enterprise which is liquidated (as its service is withdrawn from the general public) may face actual lay-offs. And this is certainly the group which needs to be placated.

Against these negative effects are the positive effects generated by load shedding. To begin with, potential investors are given an opportunity to provide a service that is abandoned by a government agency or a public enterprise. This opens up the investment horizons of private enterpreneurs and improves the investment climate of the economy. The government will be able to reduce the scope of its activities with load shedding, thus releasing resources for use in other, more valued activities. Or if the government decides not to make use of resources so released, it can reduce the taxes collected from its citizens. Thus the welfare of the general public will increase in either case. If a public enterprise, which was operating at a loss and was being subsidized by the government, is abandoned, the general public will receive an increase in welfare as the subsidy is no longer needed for the public provision of the service in question.

In short, the strategy of load shedding will generate both positive and negative effects. Depending on the nature of the abandoned service, the equity issue related to consumers who are relatively poor should not be overlooked. However, it is likely that the choice of service to be withdrawn will itself reduce the extent of the inequity, as the service abandoned would not likely be one heavily consumed by the poor. Employees who are in fact laid off as a result of load shedding must be financially compensated. On balance, the choice of the load-shedding strategy would yield net beneficial effects for the economy and could be implemented with appropriate measures to reduce the degree of negative effects on certain groups of individuals.

Effects of strategy four

The strategy of utilizing the commercial principle can be pursued by charging for services provided by the public sector. This strategy is applicable to cases where public services are provided free of charge and where only a nominal price is charged. The former mostly involves services offered by government agencies and the latter involves those offered by public enterprises.

Imposition of a service price, also called a charge, toll, or fee immediately affects consumers of the service if the service was formerly provided free of charge or at a subsidized price. As in the case of load shedding, consumers who are poor will be burdened more heavily than those who are well-off. To the extent that the service in question is important to the livelihood of the poor, the negative effects should be accompanied by measures to relieve or reduce the burden imposed on them.

Except for the negative effect just noted, the imposition of user charges would lead to better service in various ways. For instance, there would be an increased responsiveness to consumer demand as the enterprise would try to supply the quantity and the quality demanded by consumers. There would be increased efficiency in service delivery, especially when the industry is also liberalized and competition is generated. All these instances yield benefits to consumers of the service in question. Moreover, the general public will also shoulder a smaller tax bill because the government will not have to foot production costs—which are now recovered through commercial pricing and the savings passed on to taxpayers. Alternatively, the general public will enjoy increased welfare when the government increases its other services, quantitatively and qualitatively, with the savings it has secured by imposing user charges.

In view of the preceding discussion, the user charge strategy should be viewed as attractive and one which would benefit the economy. The strategy must be implemented in conjunction with measures imposed to alleviate any perceived burden on the poor who used to receive the service free of charge or at an extremely low price. And these latter measures would help reduce the resistance that would have registered against this strategy.

Effects of strategy five

The transfer of ownership strategy is the fifth strategy suggested here and can be pursued via divestiture. Divestiture in most contexts is associated with the sale of a public enterprise, partially or wholly. And it is in respect to public enterprises that divestiture is discussed here.

Divestment of a public enterprise directly affects personnel. Both managers and employees of the enterprise being put up for sale will lose their jobs unless they are retained by the new owner(s) of the enterprise. Only selected persons are likely to be retained (for instance, some members of the management team and part of the labor force working for the enterprise), because of the implied overstaffing of the public enterprise at all levels and the inefficiency associated with it. Though retention guarantees employment, it does not ensure continuity of seniority and fringe benefits formerly received. However, those who are retained would expect improved future income as a result of the increased efficiency associated with the new private owner(s) and management team. Those who lose their jobs would suffer a reduction in income; however, the size of the income loss would depend on their ability to secure new employment and the amount of severance pay offered by the government. The severity of suffering would determine the intensity of their resistance to divestiture. However, the private sector will experience new employment because not all members of the former management team and labor force would be retained.

The new owner(s) (a single entrepreneur, or a corporation taking over the enterprise, or shareholders who purchase equity shares through the capital market) will experience capital gains immediately (because of underpricing the enterprise's value) or later (because of improved operational efficiency). Such a situation will lead to a better investment climate – especially when the business community is assured of the government's clear stand on divestiture as manifested by the conduct of an actual case. The sale of a public enterprise would secure some income for the government (as the former owner) and release it from financial pressure imposed by its operations, particularly if the enterprise is habitually in financial trouble. To the extent that the enterprise actually suffered losses, the sale represents a reduced financial drain of the public coffers. The savings can be used to subsidize other, more worthwhile activities which will increase public welfare or lead to reduced taxes. Government supervision of its remaining public enterprises may also improve as there are fewer public enterprises to oversee. This may not occur, however, if the sale merely turns a public monopoly into a private monopoly. In such a case, the government must still supervise the private monopoly's operation. Consumers of the service would expect to experience better-quality service as privately-owned enterprises are more responsive to customers' needs. And when the forces of competition are at work, consumers may also experience lower prices. To the extent that the good/service was underpriced when provided publicly, consumers will pay a higher price when it is provided privately. As already noted, the tax-paying public can expect a general increase in welfare because they will receive better services from the government in other areas or benefit from reduce taxes.

SUMMARY

It is understandable that the sale of a public enterprise would be viewed negatively by its managers and employees as the action directly affects their source of livelihood. Although many groups will benefit from divestiture, the resistance from these two vested-interest groups can be intense and must be dealt with satisfactorily if divestiture is to be implemented effectively.

The discussion of the political economy of privatization shows that many groups are affected both positively and negatively by privatization. The same person may be affected positively from one perspective and negatively from another. The net result is a redistribution of well-being even though all may be on the receiving end in the long run. The aspects of redistribution must therefore be seriously considered and remedial measures (where appropriate) taken in order to implement a successful privatization program.

From this perspective it can be concluded that some strategies – and thus certain forms of privatization – can be more easily implemented than others. As already noted, the order of strategies (1-5) presented in this report recognizes and reflects this very situation. Transfer of ownership or divestiture of a public enterprise is the most difficult – if not altogether impossible – strategy to implement.

However, in the interest of equity, those interest groups which are negatively affected by any privatization measure must be assured of satisfactory compensation. This may come in the form of direct payment (severance pay) or as indirect payment (redeployment or equity participation). Those who would be positively affected must be educated about the immediate or future/direct or indirect benefits they would receive and this will help mobilize their support of privatization. Both approaches are complementary. From an economy-wide perspective, the ultimate gain from privatization will be, in one way or another, to distribute benefits equitably while ensuring that the initial burden on certain groups is minimized.

In the light of the varying degrees of difficulty of implementation, emphasis should be placed on pursuing strategies and forms of privatization that can be launched with relative ease and which have a better chance of success. Implementation issues are discussed in more detail in the following section and certain aspects discussed here are also reexamined in the broader context of implementation problems.

Problems facing implementation

Implementation of a major public program is not an easy task. To implement a privatization program, two sets of problems are encountered: the first involves problems related to the launching of the program and the second involves problems related to the implementation of specific cases.

Problems related to the launching of a program

A lukewarm acceptance of a privatization program on the part of political leaders and leading public bureaucrats will not lead to sustained, effective, implementation efforts. There must exist strong political will to ensure sustained implementation. With strong government commitment, program details can be worked out and the implementation process begun in earnest. Without commitment to privatization, the result will be mere talk.

It has been noted that Thailand has undergone many cases of "privatization"— especially in respect to the handling of public enterprises (Phisit 1985; Phanas 1985; Phipat 1986). However, these incidents do not suggest the presence of political will or strong government commitment to a well thought out program of privatization. The past experiences were the result more of isolated policy measures than of a fully articulated privatization program. Although isolated privatization measures can be found in the recently approved Sixth National Development Plan, the existence of strong commitment by political leadership to the implementation of a privatization program remains to be seen.

Nevertheless, there are still problems related to the actual implementation of specific cases. On the whole, cases related to strategies one, two, and three face fewer problems than cases related to strategies four or five. Under the first three strategies, once government commitment has been secured, implementation will be a function of the quality of the steps devised and the quality of the public servants implementing them. High quality implementation procedures can be expected when sufficient time is given and skillful analysts are assigned. The steps to be followed must, of course, be carefully studied before they are put in place. Also, the quality of public bureaucrats implementing the process may be problematic.

Additional problems faced by cases related to strategy four (utilizing the commercial principle) involve the extent of public acceptance and the probable effect on the poor. Charging a price on a formerly free service or increasing the price of a service is always unpopular. Public reception can be won by skillful handling, especially if explanations are given and benefits identified that are directly linked to the service. The effect on the poor must be softened, however. In other words, the efficiency criterion strongly suggests the desirability of privatization through user charges, but equity considerations support differential treatment of the poor who may also be consumers of the services in question. Thus, depending on the type of service in question, a differential pricing scheme for the poor may be advisable. Or if there is a uniform user charge, an alternative (in the form of a special allowance, for example) could be offered to the identifiable poor to compensate for the extra cost to them. Or the government could give special coupons to the poor who consume the service to be used in their purchase of the service.

There are several additional problems faced by cases related to strategy five and they are the principal reasons why, in Thailand, the transfer of ownership of public enterprises has been more talk than action. The first problem is whether or not there are potential private, local investors who are sufficiently interested in buying the whole enterprise (or part of it). If foreign investors are permitted, the availability of potential purchasers may not be a problem. Given their interest, do they have the necessary capital for the purchase? Or is the local capital market capable of raising the necessary funds? Thus, the availability of capital funds is a condition for transfer of ownership.

Private interest will be generated only if investors are confident in the continuity of the commitment to privatization. They have to be assured that (1) their rights on their acquired properties are protected against any future infringements; and (2) that they can exercise their rights in managing the enterprise. This is particularly problematic when there is only a partial transfer of ownership and the government retains a minority interest in the enterprise and when a joint venture is set up. However, the joint public-private venture approach is only relevant when a new business opportunity is being considered. How much and in what manner will the government exercise its authority in making management decisions? Related to this is the clarity of government policy on public enterprise operation and the pattern of control. Unless these aspects are spelled out very explicitly, the transfer of public enterprise ownership will not succeed.

Indeed, more effective approaches to this problem are (1) to push for a complete transfer of ownership or to liquidate the enterprise so that the field is open to any private enterprise. Moreover, methods must also be chosen for securing private capital for the transfer. Depending on the objective of the transfer of ownership, the availability of investors, and the strength of the capital market, capital can be directly secured by the sale of the enterprise (wholly or partially) to a few private entrepreneurs. Or it can be secured by floating stock in the capital market to which as many investors as possible can subscribe. Thus, Thailand's present political stability and future prospects for continued political commitment to transfer agreement conditions must exist in order to attract private interest.

Big public enterprises which have strong trade unions must get trade union acceptance of the transfer. This is both a political problem and a problem of financial and employment security for the affected employees. Attractive compensation and/or offers of retention must be made in order to win trade union approval. Obviously, similar measures must be worked out for those at the management level of the public enterprise to be privatized. And, laws must be revised to permit the transfer of ownership for most of the public enterprises which are candidates for privatization.

In the light of the preceding discussion, one should not be surprised to find that, in Thailand, there is more talk about selling public enterprises than there is action. In fact, of the five strategies proposed for privatization, transfer of ownership is the most difficult to execute and, hence, is the last strategy listed – althougth it is the approach most often discussed in Thailand. The problems just described suggest the kinds of conditions that must be met for the successful implementation of a privatization program. Indeed, identifying these problems helps focus on the aspects of most concern. They are not insurmountable. Some solutions are obvious and can be put into effect with strong present and future commitment. Others must be worked out in the context of particular cases along with specific privatization objectives.

Chapter Four

Recommended Actions for the Successful Launching of a Privatization Program

Thus, to pave the the way for the successful launching of a privatization program based on the strategies proposed here, certain relevant short-term and long-term actions must first be undertaken by the government.

SHORT-TERM ACTIONS

The first action that must take place is the very clear articulation of the privatization policy to be pursued by the government. The government must be precise about how it stands on the privatization issue, whether or not it is interested in privatization, what is to be privatized and what is not, and how and when privatization is to be effected in specific cases. Unless a clear statement on this matter is forthcoming, very little progress on privatization can be made. Indeed, as is evident in the energy sector, hesitation – and even confusion – will reign. Consequently, a clearly articulated privatization policy is the first task required of the government as a manifestation of strong political will and clear public intention.

The second action is the establishment of some form of national privatization center. Such a center will undertake to identify the specific activities in the government and the public-enterprise sectors to be privatized, and will outline the appropriate steps to be followed in launching the privatization process for particular cases. It will also formulate standard implementation procedures for privatization. By systematically carrying out these activities, the Center will provide relevant information for proper action. Further, the establishment of such a Center will provide more evidence of political will and demonstrate the government's strong intention to carry out its privatization policy.

LONG-TERM ACTIONS

The following actions should also be initiated as soon as possible after the recommendations above are effected. These actions, by their very nature, will take a much longer time to yield results and are treated as long-term actions.

The government should undertake the codification and clarification of laws related to private-property rights which are the foundation for the viability of the private market system. This would also include the introduction of new laws to promote and protect private property rights (for instance, the enactment of laws related specifically to the ownership of assets – in whatever form – that had formerly belonged to the public sector). These laws would protect the new owner from any whimsical public action on these properties. New laws must be formulated to specify appropriate government controls and interventions on the operation of public enterprises which have private individuals as major shareholders. These laws will assure individuals that their property rights will not be easily violated. Sustained action on these matters will provide added evidence of political will and the government's firm determination to pursue its privatization policy.

In addition to the codification and clarification of laws and as a basis for determining privatization possibilities, serious research and study should be undertaken by the government to review the existing services it provides. Such a task is inevitable, because determining what services should be involved in a privatization program is a difficult task. Unless detailed analyses are undertaken for individual, specific cases, not much will be accomplished. Not only must specific government and public-enterprise cases for privatization be identified, but appropriate steps to be pursued for the privatization of a particular case must also be investigated in depth. In short, there remains a great deal of work to be done in the area of privatization. If the government is as serious as it should be about launching an effective program of privatization, it must make sure that these studies are undertaken by the new agency proposed earlier, the National Center for Privatization.

Footnotes

1 Measures cited here do not represent all the measures discussed in the literature on privatization. Some of the measures excluded are discussed in the text at appropriate places. Some of the measures are treated as variations or subsets of the categories noted in this report. An attempt is made here to systematize measures that are identified as privatization by some writers but not by others so as to reduce confusion and contradiction among innocent but interested readers.

2 When reference is made to either goods or services or both, the words goods/services, goods, and services, more often with the relevant prefix, are used interchangeably.

3 In the case of the United Kingdom, state-owned enterprises are in fact formerly private enterprises which were nationalized by the government. It is for this reason that divestment is usually discussed under the heading of denationalization. In this report the term divestiture or divestment is preferred to denationalization.

4 For an illuminating discussion of divestment variations based on the U.K. experience, see Heald 1985.

5 Of course in those days of bad communication and transportation, the cruel tax farming monopolies might inflict on taxpayers tended to be overlooked and slighted and was not reported to the kings. In the modern-day context, conditions can easily be stipulated and effectively enforced.

6 When the funding is complete, it becomes a case of contracting out.

7 Indeed, deregulation in the case of the U.S. is the forerunner of the present interest in privatization. However, deregulation was systematically implemented as early as 1969, much before the formal launching of the privatization program by President Reagan or Prime Minister Thatcher of the U.K. (Okun 1986).

8 It has been noted that in the U.S. "the safety performance of deregulated industries has been impressive" in spite of fierce competition and lowering the price of service. This is accounted for by the strict enforcement of safety standards. (Okun 1986).

9 Although no reason is given, Heald (1985) also excludes them from his definition of privatization. (See footnote 7.)

10 It should be noted that the application of a user charge would lead to cost recovery, provided that the charge is based on the full cost of service production. But cost recovery as such is not regarded as a privatization measure; it is the imposition of a user charge on a service formerly or traditionally provided free of charge which is treated as a form of privatization. It is the substantive feature of the action which gives rise to the label "privatization"; otherwise, the term is useless for analytical purposes.

11 Of course, the inclusion of these actions noted in the discussion may be desirable for the purposes of painting "a bright picture" of a privatization program launched by the government.

12 It is mentioned here to reduce confusion among Thai readers as this is a report recommending the imposition of taxes as part of its privatization program (Samkoses 1985).

13 We may speculate that the popular usage of "privatization" as being confined to the sale or transfer of ownership of public enterprises into private hands stems from the fact that the U.K. experience (with the denationalization of nationalized industries) fits the Thai setting of numerous, inept public enterprises. Hence the U.K. usage of privatization has been followed, almost to the exclusion of other meanings of privatization.

14 It is possible to regard privatization as an end in itself, as in the context of an ideology. Then the focus would be to justify why privatization is good, which is not the objective of this report.

15 This objective is cited as the aim of Malaysia's privatization program (Milne 1986).

16 This is also true in the United States (Kolderie 1986).

17 Type (4) decisions will not normally raise problems. Controversy exists to the extent that private payment for public service accrues not to the public treasury but to public servants (i.e., the case of corruption) and/or that the public service in question is in short supply for public purposes – due either to its already small supply or to the overextended private use of the available supply.

18 More detailed discussion of the implications of this feature of service may be found in Savas (1982).

19 This action is different from the suggestion that refuse collection be contracted out. The former emphasizes the discontinuation of the public responsibility for refuse collection. The service is opened to private entrepreneurs who want to cater the collection service to households and businesses. Consumers can pick and choose the most agreeable private entrepreneur to handle their refuse. They will be ready to change the supplier of the service. In the latter case the entire responsibility remains with the government. The contractors are hired to produce the service for the government who must see to it that the contractors deliver the agreed-upon service. Consumers have no choice in supplier, and no alternative except to complain to the government.

20 If a privatization center cannot be established, a viable alternative would be for a research institute (such as the Thailand Development Research Institute) to vigorously pursue a privatization program.

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